STATEMENT OF

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Mr. Chairman, Ranking Member Walz, and Members of the subcommittee. Thank you for holding this important hearing on the financial health of farm country.

My name is Steve Verett. My son, brother, and I own and operate a 3,500-acre family farm in Crosby County, Texas, located east of Lubbock. We are primarily cotton producers but we also grow wheat and sorghum. In addition to farming I also serve as the executive vice president of Plains Cotton Growers, Inc., and as Treasurer of the Southwest Council of Agribusiness. But, today, the only hat I wear is that of an American farmer.

I expect that at least part of the reason you were motivated to hold this hearing is to help highlight the fact that, economically, times have changed significantly since consideration and passage of the 2014 Farm Bill. This is true for all commodities including cotton.

Consider this: in the year when the super committee was formed to achieve deficit reduction in order to avoid budget sequestration and the Farm Bill was potentially a part of that process, the average cotton price for one month reached almost $2.30 per pound, an unheard of level in a market where $1 cotton is unusual. In 2012, 2013, and in the early part of 2014, when the Farm Bill was finally enacted into law, the monthly average cotton price still reached as high as 94 cents to over a dollar per pound. Now, to clarify, this does not mean that cotton farmers all partook in these high prices, especially the high water mark where most did not. For example, producers who forward price their crops to manage risk often miss out on the peaks while those dealing with successive years of drought missed out altogether. But my primary point here is to suggest to you that the Farm Bill was written in the midst of a bullish cotton market and today all of those bulls are bears.

Beginning last fall, cotton prices collapsed into the 60-cent range where prices largely remain today. Compared to the peak price back in 2011 this constitutes a 70 percent drop in prices. But even compared to crop year averages recorded during the Farm Bill’s consideration, cotton prices this year are still down very significantly, by as much as 30 percent.

I can only say anecdotally, based on conversations I have had with producers and lenders in other parts of the country, that despite the stronger rally in crop prices that they had in the recent past, as compared to cotton, and despite having stronger yields, many producers in these parts of the country would be under water today given the plunge in prices but for their having purchased Federal Crop Insurance and the potential for some Farm Bill benefit being paid this October. These are the same producers who have had the opportunity to build up some financial reserves over the years, thanks to higher crop prices and good yields, and, yet, they are hoping and praying for some recovery in the market or a super strong yield to offset crop prices that today would not cover their bills.

Having said that, now imagine a farmer in Texas who has been dealing with a severe drought – in many places a D-4 drought – for the past four years, who has been growing crops that have seen a more modest, shorter-lived price rally in recent years but has still felt the same price plunge, and in the case of the cotton farmer, where he also has no Farm Bill benefit coming because crop insurance is it for cotton farmers. Producers in my part of the country have had little opportunity to build up reserves over the past four years in order to weather the current storm because they spent all of those years trying to keep their head above economic water because there was no rainwater.

Consider further what beginning farmers and ranchers are experiencing. In many cases, they have no reserves built up and little equity in their operation.

And, now, as you know due to the terrible tragedies in south Texas, the drought is giving way to deluges of rain that in many cases are preventing producers from planting a crop, causing them to potentially lose out on what could be a strong production year, the first in a very long time. To offer a personal illustration, on my own farm, I may be prevented from planting some acreage for the first time in 38 years.

Yet, even as farmers across the country feel the effects of depressed crop prices, the prices we receive for our crops have not translated into lower input costs. Some input costs have gone down but most are stuck or are even still rising. It confirms once again the quip made by President Kennedy who very astutely observed that farmers are the only people in the economy who buy everything they buy at retail, sell everything they sell at wholesale, and pay the freight both ways.

So, Mr. Chairman, if I were asked to describe the state of the financial health of the farm economy in one word, my answer would be: precarious.

Lenders in my part of the country tell me that as much as 65 percent of operating loans from last year had significant carry-over into 2015 because producers simply could not pay off their notes. Equipment dealers tell me that about half of producers in our area had to have their equipment notes restructured. Bankers pulled a rabbit out of the hat in getting a great majority of producers in our part of the country refinanced for 2015 in a time when it is very difficult to show a positive cash flow. But, with crop prices where they are right now, a producer, especially a producer still carrying last year's debt, will not be able to as much as stub a toe on the production or cost side of the equation if he plans to get refinanced for 2016. That producer is going to need a very good year this year. And, good Lord willing, he might get it – provided he can get into the field.

Yet, the financial health of the farm economy does not just concern the farmer. The 1980s farm financial crisis and other severe times for agriculture have demonstrated that the impact of a bad farm economy is felt even in the cities. And, conversely, the manufacturing crisis of the early 2000s demonstrated that the impact of a good farm economy is also felt in the city. I expect that at least two of my fellow panelists can speak more fully on this but I will just offer some thoughts on this from my vantage point.

Cotton is the #1 cash crop in the State of Texas. Lubbock County is the #1 cotton-producing county in America. So, when cotton prices are in the tank and drought is gripping our state, cities like Lubbock and Amarillo – where nearly a half a million people live and work – suffer. And it suffices to say that when Lubbock or Amarillo cough smaller towns like Brownfield and Plainview are on a sick bed. Cotton is the lifeblood of these cities and towns and many just like them across the cotton belt. Crops grown by fellow producers across the country can tell a similar story.

People not directly involved in agriculture but who live and work in these communities may not know it, they may not even think about it, but their livelihood depends on good crop prices and strong yields. And, in the absence of good yields and strong crop prices, these folks depend as much as the farmer on Federal Crop Insurance and the Farm Bill.

I can go back to the manufacturing crisis of the early 2000s when a strong agricultural economy was being credited for helping to stabilize the national economy. Times were just starting to improve for agriculture about that time after we ourselves had experienced four very hard years on the farm when cotton prices fell to 28 cents a pound and corn prices were under a buck. I can attest that had Federal Crop Insurance and the Farm Bill not been there and had they not been strengthened to respond to this serious situation, we would have seen another 1980s farm financial crisis, we would not have been around to help offset the losses to the manufacturing sector, and the economic boats of more than just farmers and ranchers would have capsized.

Now, in a city noted for political polarization where little can be agreed upon, I realize that some on either side of the political spectrum can still manage to come together in their common loathing of crop insurance and the Farm Bill. They use and abuse facts and statistics to paint the picture they want to and that is certainly their right. But my defense of crop insurance and the Farm Bill boils down to two facts. First, I could not buy insurance to cover my crop from multiple perils like I can on most anything else without federal involvement. The weather risks of farming are simply too great for any private company to successfully offer insurance to producers at premiums that producers could afford. In the best of years, for some crops, on the best of ground, for the best of producers, this might be possible, but not year in and year out for all producers in all parts of the country on all crops. This is simply a fact.

I think every farmer in the country wishes he could buy insurance on his crops the same way he buys insurance on anything else, in part so we did not have to come to Washington hat in hand to plead for protection of our insurance. Making this plea every five years causes anxiety enough, especially when the House defeated by only 9 votes an amendment that would have, without the least bit of exaggeration, killed Federal Crop Insurance but the anxiety reaches new levels when year in and year out we face killer amendments on the House and Senate floors that are cloaked as mere reforms. It is key to remember that producers write huge checks to cover our end of the premium on crop insurance, totaling about $4 billion last year, and in any year other than a year when we receive an indemnity, it is the farmer paying the government money not the government paying the farmer.

Second, very often, we are not operating in a free and open market. I will not duplicate here what you are likely to hear at tomorrow’s hearing but there are no fewer than five studies out there showing that even as you worked hard to cut the cost of the Farm Bill by some $23 billion, our trading partners were all very busy increasing subsidies, tariffs, and building up other walls against the commodities we produce here in America. Texas Tech University, Charleston College, DTB Associates, the OECD and the office of the United States Trade Representative all have extensive reports on what each of our trading partners is up to in this regard and, quite frankly, it is scandalous. USTR's report alone numbers more than 400 pages and I expect that none of these reports cover every creative angle these countries are taking to protect their agriculture sector.

The whole goal behind our trade agreements is to have a rules-based system and I certainly support this effort. But, the practical problem that we need to address is two-fold not only to make that goal a reality but also to maintain agricultural support for trade. First, we are not holding our trading partners' feet to the fire to ensure they live up to their commitments. And, second, we are allowing our trading partners to reinvent what our country agreed to in order to tear down any support for American farmers in the same way that courts here at home sometimes make up the law as they go along rather than simply interpret it. The American cotton farmer knows this all too well based on our experience with Brazil.

We are incredibly dependent on the world market, especially in the case of cotton where a majority of our textile mills have left our shores long ago, along with tens of thousands of good paying jobs. We now depend on the world cotton market to sell about 80 to 85 percent of what we produce. And that world cotton market we depend on revolves around communist China, a state-planned economy, the world's largest consumer, importer, and stockholder of cotton, and the second largest producer. And this brings me to my point about free and open markets.

China has been the world's largest cotton importer since 2003 though it was certainly a big player well before that time. Since then, China has driven world cotton stocks to nearly double average levels, with world stocks approaching nearly 90% of use in 2012 and 2013. During this same period, China was offering its producers a minimum of $2,950 per ton to $3,200 per ton at a time when the world median monthly price was $2,000 per ton and no monthly average exceeded $2,600 per ton. Import tariffs in China range from 0-40%, with most cotton entering at 13% or 27% with VAT. In 2014, China instituted a program in the Xinjiang province to pay producers there about $1.45 per pound even as cotton prices in the U.S. were falling into the 60-cent range. There is significant uncertainty as to how communist China – the government, not markets – will deal with the unprecedented level of stocks China is sitting on, but lower imports by China are thought highly likely over several years. As such, USDA predicts that global cotton markets will face a tough and costly transition should China in fact return world stocks to normal levels with anything other than a long transition period. And, USDA offers this comparison: China's disposal of a large cotton stockpile in the early 2000s may provide some guidance about how Chinese authorities might dispose of their current stockpile. By 1999, China had accumulated large cotton stocks (140 percent of use), which they reduced to 48-percent stocks-to-use by 2004. This is chilling because it was in the late 1990s and early 2000s when the U.S. agriculture economy neared collapse and cotton prices reached that apocalyptic 28 cents per pound.

I wish I could say that China is alone on this front but, as the reports on foreign subsidies and tariffs that I referred to earlier indicate, China is only one of many, though certainly a big one. India is working hard to do what China has done in terms of implementing policies to protect and promote its cotton industry through government largesse and barriers to trade. And Turkey is yet one more in a litany of examples, where the Turkish government has alleged, without any substantiation, that the U.S. cotton industry is somehow illegally dumping exports to Turkey, with one Turkish official even reportedly saying that the charge is simply in retaliation against the United States for something our country has alleged to have done on steel.

In short, farmers can and do manage extraordinary risks. But, there is no way that an individual American farmer can somehow manage the risks associated with, for instance, a state run economy the size of China that for several years will acquire stocks of historic record and then all of a sudden stop and, perhaps, in time liquidate those stocks back down to normal levels. And note that I am not even speaking to some of the more controversial issues associated with leveling the playing field in the global market, such as currency manipulation, wage disparities, or differences in environmental protection requirements; I speak strictly in terms of subsidies, tariffs, and non-tariff trade barriers erected for the purpose of building up their own industry at the expense of American exports.

China serves as a specific though not by any means exclusive reason why we have and why we need U.S. farm policy. Our farm policy is a very modest response to the kind of anticompetitive trading practices that we would not tolerate within our borders and which we should not tolerate outside of our borders either.

One very serious problem for cotton lint, however, is it is no longer eligible for key Farm Bill support, as other crops are. To comply with the World Trade Organization ruling in the Brazil case, cotton policy was completely overhauled, with cotton lint not included in either the Agriculture Risk Coverage or Price Loss Coverage options. Instead, cotton retains access to the marketing loan with a base loan rate well below the cost of production, as well as traditional crop insurance, and a new area-based crop insurance policy known as STAX. The trouble is, the success of this policy as an effective safety net is largely predicated on a free and open market on cotton which, as I have just explained, we most certainly do not have today. As a result, first year participation in the new STAX insurance policy is low. And, of course, traditional crop insurance was never designed to meet the anticompetitive trade practices of our trading partners but to respond to crop losses due to weather and revenue swings within a single crop year in order to provide replacement cost protection.

This is certainly not good news for the American cotton farmer. But, absent any action by the U.S. government to compel our trading partners to play by the rules that they agreed to, I do believe that there are at least some tools within the Farm Bill that are available to USDA that might assist cotton producers in dealing with this extraordinary situation that is totally out of U.S. producer control and that may very well require mitigation depending on price and production conditions.

Despite this ominous testimony, which I believe does reflect the feeling of most producers, and certainly cotton producers, I remain hopeful, in first part because that is what farmers do but in second part because I am testifying before Members of Congress who understand what I have just laid out. Many of you were in the trenches, leading the fight for a new 5-year Farm Bill during what was a very contentious and protracted, 4-year debate. I am very heartened and encouraged by your support. I know that many of you took a lot of bullets from opponents of U.S. farm policy on account of your support while maybe you did not always get the thanks you deserved back home for making it happen. For all that you have done and continue to do for

American agriculture, please accept my gratitude and sincerest thanks, and know that American agriculture is a bit like family and friends in that we do not always express our appreciation as we should.

Before I conclude, let me touch on a few other issues of great importance to agriculture that I would be remiss not to mention. My brief discussion of these issues is in no way meant to diminish their importance to agriculture but rather a function of time as I felt that a primary focus on the current conditions facing cotton farmers was especially appropriate in the context of today's hearing.

First, on a note very much related to the importance of the Farm Bill and crop insurance, let me just convey my thanks to each of you for working to protect both in the budget process. We know that it did not just happen and that it involved a lot of blood, sweat, toil, and tears on your part. We very much hope that you will stand your ground against any attacks during the appropriations process.

Second, we are grateful for all that you are doing on a bipartisan basis to block the Waters of the U.S. regulation. I believe that Chairman Conaway and Ranking Member Peterson reflect the collective wisdom of all of agriculture when they rejected EPA's attempt to repackage and sell what is basically the same rule. We also very much appreciate efforts to eliminate the permitting requirements under the Clean Water Act that are duplicative of requirements already imposed by FIFRA. Crop prices and yields matter but so do costs and federal dollars can also be better spent on things other than on doubling down on permitting requirements and policing ditches.

Third, producers like me very much appreciate the bipartisan efforts to eliminate the death tax and make permanent the section 179 and bonus depreciation levels extended late last year. We also appreciate that the proposal to eliminate stepped up basis for producers was rejected. As a dad who wants to pass along the farm to his son, the death tax and stepped up basis issues are not provisions for the wealthy but provisions meant to make for certain my son is not shouldered with an unsustainable amount of debt, especially in these very uncertain times when debt load can make or break a producer. In regard to section 179 and bonus depreciation, we do very much appreciate that these provisions were ultimately extended and I know that you recognize how much more these provisions could mean for producers and the whole economy if made permanent or at least extended earlier in the year if an extension is all we can hope for. The conditions in cotton country that I have just outlined have really hit the implement dealers and addressing this issue in a timely way would certainly be of help to them.

Finally, on behalf of every producer who has been coping with extreme drought or flooding or other weather events where a toll has been taken on our Actual Production History for crop insurance, I want to thank this Committee for developing the APH adjustment included in the Farm Bill and for pressing for its timely implementation. This provision has been a lifesaver for so many producers because it gave them an opportunity to pay a higher premium to buy adequate insurance to cover what they have proven they can grow. This was a key provision of the Farm Bill and we thank you for being the genesis of it, and we also commend Secretary Vilsack and Risk Management Agency Administrator Willis and his team for pulling out the stops to make it happen.

Thank you once again, Mr. Chairman, and Ranking Member Walz for affording me this opportunity to testify. I look forward to hearing your thoughts and answering any questions that you may have.